



## **"LUGAR" AND MEDICARE-DEPENDENT SMALL RURAL HOSPITALS**

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### **ISSUE**

Explain "Lugar" and Medicare-Dependent Small Rural (MDH) hospitals. Briefly describe other Medicare hospital designations, including Section 401 and Section 505 designations. List all of the Connecticut hospitals with these designations from federal FY 13 to FY 17.

### **SUMMARY**

Lugar and MDH are Medicare designations that make certain rural hospitals eligible for increased Medicare payments. A Lugar designation allows a rural hospital to be considered urban if it meets certain criteria. The MDH program compensates small rural hospitals that are heavily dependent on Medicare patients with increased payments. As of federal FY 17, there is one Lugar hospital (New Milford) but Connecticut had as many as five in FYs 13 and 14. Windham Community Memorial is Connecticut's only MDH. (Windham County was re-designated as urban in FY 15, effective after a three year transition period, which may make hospitals in the county ineligible for MDH or Lugar status in the future.)

Section 401 and Section 505 designations are additional Medicare designations that make certain hospitals eligible for different Medicare payment rates or programs based on geographic or demographic criteria. Generally, Section 401 hospitals are those in a rural area of a metropolitan census tract and Section 505 hospitals are those with a high number of employees commuting to or from a county with a higher wage index. In FY 2017, two Connecticut hospitals were designated Section 401 hospitals (Sharon and Windham Community Memorial) and three designated Section 505 hospitals (Sharon, Charlotte Hungerford, and Middlesex).

### **MEDICARE PAYMENTS AND RECLASSIFICATION**

Federal Medicare payments, which are paid directly from the Medicare program to billing hospitals, are based in part on a hospital's geography ([42 CFR § 412.64 et.](#)

[seq.](#)). However, federal Medicare law allows a hospital's geographic designation to differ from its physical location in certain circumstances through a process known as reclassification. Among other things, reclassification may make a hospital eligible for various Medicare payment programs or an increased wage index (a component of a hospital's Medicare payment rate).

Generally, reclassification occurs in three ways: (1) Congress may act on its own initiative, (2) a hospital may apply to the [Medicare Geographic Classification Review Board](#), or (3) the federal Office of Management and Budget (OMB) may reclassify a hospital based on changing demographics, geography, or other criteria.

### **Windham County Reclassification**

In FY 15, OMB reclassified Windham County as urban. According to the federal Centers for Medicare and Medicaid Services (CMS), hospitals losing rural or urban status are eligible for a three-year transition period ([FY 15 Final Rule](#), page 49981-49982). An urban designation may make hospitals located in Windham County, such as Windham Community Memorial or Day Kimball hospitals, ineligible for Lugar, MDH, or other rural hospital Medicare designations.

### **LUGAR HOSPITALS**

Under what's known as the Lugar amendment, certain rural counties are considered urban for Medicare payment purposes if the counties meet certain criteria, including population density requirements and resident commuter patterns ([42 U.S.C. § 1395ww\(d\)\(8\)](#)). A hospital may waive its Lugar designation.

According to CMS, New Milford Hospital is Connecticut's only Lugar hospital in FY 17. Table 1 shows the number of Lugar-designated hospitals in Connecticut by fiscal year.

**Table 1: Lugar Designated Hospitals in Connecticut, FY 13-17**

		<i>Federal FY</i>				
		<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
Hospitals	Day Kimball	Lugar	Lugar			
	Sharon	Lugar	Lugar	Lugar	Lugar	
	Charlotte Hungerford	Lugar	Lugar	Lugar	Lugar	
	New Milford	Lugar	Lugar	Lugar	Lugar	Lugar
	Windham Community Memorial*	Lugar	Lugar			
<b>Total</b>		<b>5</b>	<b>5</b>	<b>3</b>	<b>3</b>	<b>1</b>

Source: CMS Inpatient Prospective Payment System (IPPS) Final Rule Data Files for FY 13-17, compiled by author. \*Windham Community Memorial is also the state's only MDH for FY 13 & 15-17. [According to CMS](#), Windham waived its Lugar status for the out-migration (Section 505) adjustment after FY 14 (see Table 3). However, Windham County has been re-designated as urban in FY 15 ([CMS Pub. 100-04, Attachment 9](#)).

## **MDH PROGRAM**

The MDH program provides increased payments to hospitals that are particularly susceptible to fluctuations in Medicare payments because of a large Medicare population. In general, these hospitals are less able to balance Medicare payments with payments from privately insured or other patients.

The MDH program allows hospitals to receive payments for medical services based on the greater of the federal Medicare rate or the hospital specific rate. If the hospital-specific rate is greater, the MDH is paid the federal Medicare rate plus 75% of the difference between the two ([Page 56945 of the CMS FY 17 Final Rule](#)).

A rural hospital may qualify as an MDH if it is not a sole community hospital and it:

1. participates in the Medicare Inpatient Prospective Payment System (IPPS),
2. has fewer than 100 beds, and
3. has at least 60% of inpatient days or discharges that are for Medicare beneficiaries ([42 CFR 412.108](#)).

According to the [Medicare Dependent Rural Hospital Coalition](#), a coalition of MDH hospitals, there were approximately 164 MDHs nationwide in 2016. Connecticut has one MDH in FY 17, Windham Community Memorial Hospital. Windham Community Memorial Hospital was also the state's only MDH in FYs 13, 15, and 16. There were no MDHs in Connecticut in FY 14.

MDHs may be eligible for certain other benefits. For example, they are exempt from a federal cap on disproportionate share hospital (DSH) payments ([42 CFR 412.106\(d\)\(2\)\(iv\)\(D\)](#)). [DSH payments](#) are payments that federal law requires state Medicaid programs to make to certain hospitals with high numbers of Medicaid and uninsured patients. (Since DSH payments relate to Medicaid, these payments are refunded to the state to compensate for a certain share of state expenditures for Medicaid patients.)

The MDH program was extended through September 30, 2017 by the Medicare Access and CHIP Reauthorization Act of 2015 ([42 U.S.C. 1395ww\(d\)\(5\)\(G\)](#)).

## **OTHER MEDICARE DESIGNATIONS FOR RURAL HOSPITALS**

Medicare includes several other possible geographic reclassification designations, including what are known as Section 401 and Section 505 hospitals.

## Section 401 Hospitals

Section 401 of the Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999 allows hospitals located in urban areas to be designated as rural for Medicare reimbursement purposes ([42 U.S.C. § 1395ww\(d\)\(8\)\(E\)](#)). Generally, the hospital must meet certain other criteria, such as being in a rural census tract in a larger metropolitan area. Table 2 shows the Section 401 hospitals in Connecticut for the last five federal fiscal years.

Table 2: Section 401 Hospitals in Connecticut, FY 13-17

FY				
2013	2014	2015	2016	2017
Sharon Hospital	Sharon Hospital	Sharon Hospital	Sharon Hospital	Sharon Hospital
	Waterbury Hospital	Waterbury Hospital	Windham Community Memorial Hospital	Windham Community Memorial Hospital

Source: CMS IPPS Final Rule Data Files for FY 13-17, compiled by author.

## Section 505 Hospitals

Section 505 of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 allows an increase in the wage index for hospitals with a high level of “out-migration.” In general, out-migration means a high percentage of hospital employees who commute to or from a county with a higher wage index ([42 U.S.C. § 1395ww\(d\) \(13\)](#)). According to CMS, hospitals receiving the out-migration payment may generally not maintain Lugar status. Table 3 shows the Section 505 eligible hospitals in Connecticut for the last five federal fiscal years. (CMS describes hospitals as “eligible” for Section 505. It is not clear whether all eligible hospitals receive the designation.)

Table 3: Section 505 Hospitals in Connecticut, FY 13-17

FY				
2013	2014	2015	2016	2017
Middlesex Hospital	Middlesex Hospital			Charlotte Hungerford Hospital
Windham Community Memorial Hospital	Windham Community Memorial Hospital			Middlesex Hospital
				Sharon Hospital

Source: CMS IPPS Final Rule Data Files for FY 13-17, compiled by author.

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